

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

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Idaho's recent robust economic performance has raised expectations for its future. Idaho nonfarm employment accelerated in the second half of 2005, growing by a 4.6% annual rate in the third quarter followed by a 5.8% rate in the fourth quarter. Thanks to this late-year growth spurt, employment turned in its strongest showing of the decade. Last year's 4.2% actual employment growth was even higher than the 3.7% growth forecasted in January 2006. Both the current and the previous forecast included a second-half rally, but the previous forecast underestimated the strength of the economy's second wind. In January 2006 we projected Idaho nonfarm employment would advance around 2% in each quarter. Estimates released since January 2006 show employment grew over twice as fast. As a result of the faster growth, total nonfarm employment ended the year with 623,400 jobs, which were 8,200 more jobs than had been previously forecasted. One of last year's strongest performing sectors was construction employment. It posted double-digit employment growth in each of the last two quarters of 2005, bringing its year-end employment to 46,900—about 2,100 more jobs than had been previously forecasted.

Other local economic indicators also displayed strength in 2005. The U.S. Census Bureau estimates Idaho's population grew 2.4% last year, which was significantly stronger than the 1.7% predicted growth. The robust population growth propelled the state's housing industry to a record 23,200 housing starts in 2005. Interestingly, the current Idaho wage and salary payments estimate for 2005 is lower than in the previous forecast.

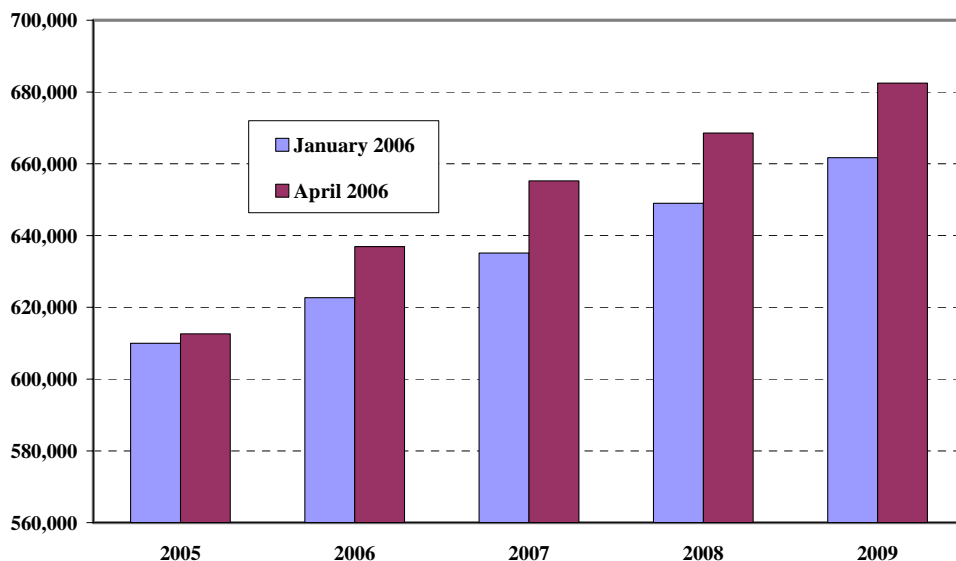
This is inconsistent with the strong employment data and individual income tax withholding collections. Given these two measures are more timely than the personal income estimates, we expect this inconsistency will be resolved when the wage and salary payments estimate for 2005 is revised upwards at a later date.

Last year's employment rally has lifted expectations in two ways. First, it has raised the starting point of the current employment forecast by about 8,000 jobs above the previous forecast. Second, the strong employment surge at the end of last year and robust employment so far this year has convinced us the economy has stronger legs than we had previously believed. We predict Idaho nonfarm employment will increase 4.0% this year, 2.9% next year, 2.0% in 2008, and 2.1% in 2009. In the previous forecast, Idaho nonfarm

employment was expected to increase about 2% in each year. As a result of the higher starting point and stronger growth, Idaho nonfarm employment should reach 682,500 jobs by 2009, which is 20,800 more jobs than in the January 2006 forecast.

Consistent with the employment outlook, several other economic measures' prospects have also brightened. Idaho's population is predicted to grow by just over 2% in each year, which is well above the 1.5% average rate projected in the previous forecast. Idaho housing starts decline more gradually in the current forecast compared to the previous one, resulting in about 20,200 housing starts in 2009 versus 18,500. Idaho nominal personal income also grows slightly faster, hitting \$52.0 billion in 2009 compared to \$51.3 billion in the previous forecast.

Idaho Nonfarm Employment



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General Fund Update

As of April 30, 2006

Revenue Source	\$ Millions		
	FY06 Executive Estimate³	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	1,096.7	990.0	1,069.2
Corporate Income Tax	164.4	132.7	160.3
Sales Tax	836.4	703.9	735.2
Product Taxes ¹	23.2	19.3	19.5
Miscellaneous	108.4	60.5	57.4
TOTAL GENERAL FUND²	2,229.1	1,906.5	2,041.6

¹ Product Taxes include beer, wine, liquor, tobacco and cigarette taxes

² May not total due to rounding

³ Revised Estimate as of January 2006

General Fund revenue collections were \$110.1 million (5.8%) higher than expected in April, making this the strongest April on record. The General Fund is now \$135.1 million higher than expected for the fiscal year to date with just two months remaining before year end. The individual income tax accounted for \$92.3 million of the month's excess, with the corporate income tax and sales tax contributing \$11.8 million and \$8.2 million, respectively, to the month's gain. Miscellaneous revenue actually dampened April's revenue bonanza slightly, coming in \$2.2 million below expectations for the month.

Individual income tax now stands \$79.2 million higher than expected for the fiscal year to date. April's strength came in the form of filing payments that were ahead \$74.1 million in April (up \$88.0 million for the year to date), withholding payments that were \$6.3 million ahead of target in April (up \$6.2 million for the year to date), and refunds that were \$10.8 million lower than expected in April (up

\$16.4 million on a year-to-date basis). April's individual income tax strength is particularly amazing in light of the fact that this year's gain of 32% over last April comes on top of last April's gain of 38% over April 2004, which in turn came on top of a 17% gain in April 2004 over April 2003. The past three years have seen April individual income tax receipts more than double, from \$160 million in FY 2003 to \$342 million in FY 2006.

Corporate income tax revenue turned in its strongest performance of this fiscal year, \$11.8 million ahead of expectations for the month. Corporate income tax revenue is \$27.6 million ahead of the expected amount for the fiscal year to date. April's strength consisted of filing payments that were \$9.6 million higher than expected, refunds that were \$1.5 million lower than expected, and estimated payments that were \$0.6 million higher than expected.

Sales tax revenue continues to pour in, with a gain of \$8.2 million in April

bringing the fiscal year-to-date excess to \$31.3 million, or 4.4% more than expected. Direct comparisons to last fiscal year are complicated by recent changes in the sales tax rate and elements of the sales tax distribution formula, but on a normalized basis the forecast for sales tax revenue growth in FY 2006 is 7.9%. The current actual sales tax revenue growth rate is over 50% higher than the forecast, and all indicators point to the incredibly hot real estate market as the principal factor underlying this remarkable strength.

Product taxes were slightly ahead of target in April, while the miscellaneous revenue category registered its fourth consecutive month of under performance. This month's miscellaneous category weakness was concentrated in interest earnings (down \$2.6 million), and unclaimed property (down \$0.4 million). The interest earnings weakness is believed to be just a timing issue related to repayment of the state's short-term Tax Anticipation Note borrowing.